

Solid Waste Enterprise Fund Structural Deficit

November 18, 2009

Solid Waste Enterprise Fund (SWEF) Terminology

C&D – Construction and Demolition Waste

1. C&D – Commercial Construction & Demolition Waste for which a tip fee is charged
2. 1827 Waste – C&D generated by municipal departments and non-profit organizations such as the Land Bank. No tip fee is collected for 1827 C&D waste

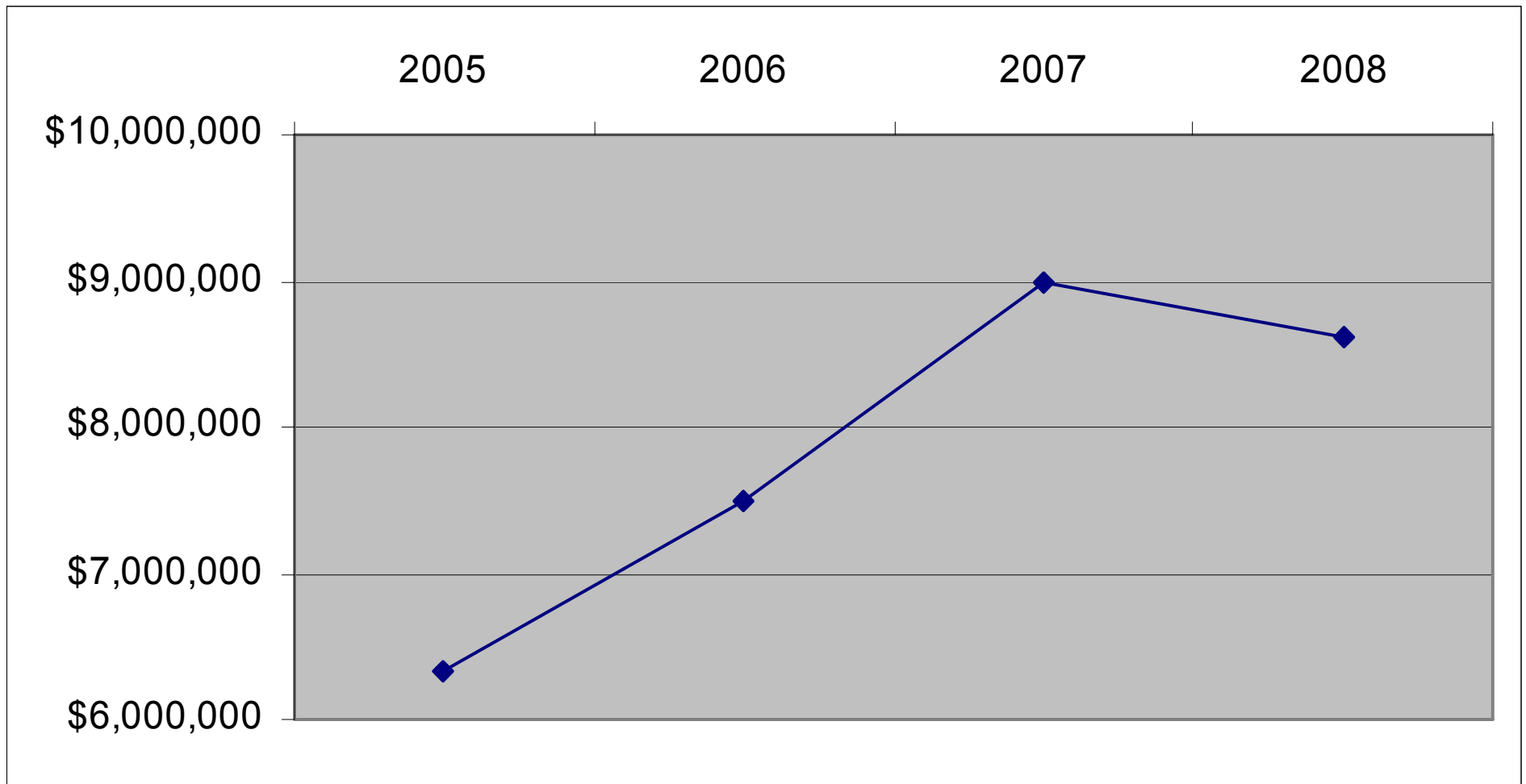
Legacy Capital Costs – The landfill operates under an Administrative Consent Order with the State, which requires capital improvements at the landfill to clean up and protect against potential environmental hazards.

Wood Waste Ban – A state regulation implemented in 2006 that prohibits putting C&D waste in the landfill and requires that C&D waste be shipped to specifically permitted facilities off-island for disposal

Tip Fee – A per ton disposal charge that is charged for certain materials

SWEF Actual Budget History

Fiscal Year 2005 - 2008



Causes of SWEF Structural Deficit

1. Dedicated Revenues Do Not Support Activity of the Enterprise Fund
2. Unfunded Legacy Capital Costs
3. Revenue Declines Caused by the Economy:
Volume Declines & Price of Recyclable Materials
4. Certain Revenues Growing Slower than Costs

Dedicated Revenues Do Not Support Activities of Enterprise Fund

- Current Solid Waste Enterprise Fund Structural Imbalance Began in Fiscal 2006
 - State implemented wood waste ban which prohibited Construction & Demolition (C&D) Material from being deposited in landfill
 - Beginning in 2006, C&D material had to be shipped off-island, which incurred new shipping costs.
 - Cost of handling C&D material increased almost 100%

Lost C&D Revenue

- Historically, C&D tip fee revenues were used to subsidize other landfill cost centers such as the Material Recycling Facility (MRF)
 - Prior to FY 2006, C&D tip fees generated a \$100 per ton margin that was used to fund other landfill operations
 - The wood waste ban reduced the C&D margin to \$20 per ton

Lost C&D Revenue

- In fiscal 2006, just under 13,200 tons of C&D waste was processed at the landfill
 - 11,200 tons for which a tip fee was collected
 - 2,000 tons of “1827” waste
- \$80 reduction in per ton margin resulted in a loss of almost \$900,000 in revenue
- Dedicated Revenue for SWEF has not been identified to replace revenue lost in fiscal 2006
- C&D Volume Declines Are Compounding Loss of C&D Revenue
 - Since FY '06 C&D revenue generating volumes have declined a projected 60% (FY 2006 11,200 tons: Projected FY 2010 4,500 tons)

Funding the SWEF Deficit

- In fiscal 2006, retained earnings were used to fund SWEF Structural Deficit
- The General Fund began subsidizing the current SWEF deficit in Fiscal 2007.
- In Fiscal 2007 and fiscal 2008, the reserve fund and budget transfers were used to subsidize the SWEF

Funding the SWEF Deficit

General Fund Subsidy

- Beginning in fiscal 2009, general funds have been appropriated to the SWEF
 - In fiscal 2009, \$1.47 million in general funds were appropriated by Special Town Meeting
 - In fiscal 2010, \$1.5 million in general funds and \$500,000 in free cash were appropriated to the SWEF
- Prior to fiscal 2010, general funds were appropriated or used during or at the end of the annual budget cycle.

Fiscal 2009 & 2010 General Fund Subsidies

- One-time actions and School & Town Spending Reductions Provided GF Subsidy to SWEF in fiscal 2009 & 2010
 - FY 2009: Health Insurance Drawdown provided \$1.47 million on a one-time basis
 - FY 2010: one time actions included funding landfill mining w/ free cash (\$500,000) and not funding 1% capital requirement (\$640,000)
 - School and Town general fund spending reductions allowed for additional general funds to be used for the SWEF

Unfunded Legacy Capital Costs

- Unfunded legacy capital costs for cleaning up landfill are adding to SWEF deficit
- Administrative Consent Order (ACO) Requires Capping & Closing of Unlined Cells
 - The ACO was amended in 2009 to allow for landfill mining, which will reduce capital costs for capping and closing unlined cells
 - Landfill mining authorized through fiscal 2014 and will cost \$550,000 per year
 - Out-year capital costs include capping & closing of cell 2B and a portion of cell 2A; construction of cell 2C; and capping and closing of unlined cells
 - Dedicated revenue has not been identified for these legacy capital costs

Recession Making Structural SWEF Deficit Worse

- Revenue Generating C&D Volumes Declined 29% from Fiscal 2008 to Fiscal 2009
 - Fiscal 2008: 9,350 tons
 - Fiscal 2009: 6,640 tons
- C&D tip fees no longer support the cost of handling all C&D waste, and no longer generate revenue that can fund other landfill costs
- Value of Recyclable Materials Have Plummeted
 - In fiscal 2008 cardboard sold for \$110 ton
 - In fiscal 2009, cardboard was composted because it was more cost effective due to sharp decline in recycling market

Costs Increase Faster Than Some Revenues

- Property Taxes Dedicated to the SWEF total almost \$2.9 million
 - State Law Restricts Revenue Growth to 2.5%
- Waste Services Agreement Requires Inflationary Increases Equal to the Consumer Price Index
 - Since 1997, the CPI has annually increased by 3.1% on average
- Over time (5-7 years) difference between revenue growth and cost increases will create a meaningful deficit

Summary

- In 2006, new state regulations profoundly affected the revenue stream for SWEF
 - Operating Costs increased for handling C&D, which resulted in an 80% reduction in revenue generated by C&D
 - An alternative revenue stream has never been identified
- Beginning in Fiscal 2010, unfunded legacy capital costs have increased the SWEF deficit
- The recession has exacerbated the SWEF deficit because revenues have declined from loss of volume and the sale of recyclable materials
- Property Tax Revenues dedicated to SWEF do not grow as quickly as inflationary cost increases, which over time contributes to deficit